

# STATES OF JERSEY

## Economic Affairs Scrutiny Panel Price and Charge Indicators (GST) Sub Panel

WEDNESDAY, 25th JULY 2007

**Panel:**

Deputy G.P. Southern of St. Helier (Chairman)

Deputy J.M. Martin of St. Helier

Connétable M.K. Jackson of St. Brelade

**Witnesses:**

Mr. J. Hopley, Jersey Chamber of Commerce

Mr. R. Shead, Jersey Chamber of Commerce

**Deputy G.P. Southern of St. Helier (Chairman):**

Welcome to this hearing, gentlemen. Have we got a statement? My apologies for being late. I understand you have been fairly busy today as well.

**Mr. R. Shead:**

Yes. We have had a few ... yes. I have not seen this but I have done it before, so I suppose it is the same thing.

**Deputy G.P. Southern:**

I have to draw your attention to the conditions under which you are giving evidence today. Having said that, feel free to speak frankly about the issues in front of us which, essentially, concern the Draft Pricing and Charge Indicators Law and how it is going to operate in Jersey. Having said that, we have got Ray Shead and Jim Hopley from the Chamber of Commerce, for the record. To start with, I would just open the floor to you to say what your position is on pricing, and we will take it from there.

**Mr. R. Shead:**

Right, well, I will start then. Chamber had a major concern about the price marking legislation in effect for GST (Goods and Services Tax). We lobbied, we spoke with the Minister, we lobbied for a long, long time to have exclusive pricing, which, in effect, means that the GST is added at the till or at the bottom of the invoice, rather than inclusively. We were always told that GST would be simple, a simple system to operate. Inclusive pricing has a lot of costs. I would like -- maybe you can put this in the

record but I am not sure. I wrote a letter on 21st June which I copied to Scrutiny, but I am not sure which one. It went to the Scrutiny Panel but I can certainly ... this sets out Chamber's view. This was our response to the Treasury Minister on a number of issues affecting GST and how it affected Chamber. On pricing of goods, our basic -- I will leave this with you so that you can put this into the record, so to speak. Our balance of view was that we supported the option for prices to be displayed exclusive of GST, although we see issues with both approaches. We believe that there are ways in which customers can be educated using clear signage and appropriate locations in retail outlets to ensure the consumer is properly informed. That was really one of our main conclusions of it. We were not opposed and we are not as Chamber opposed to GST in principle, but we felt that a consumer affairs issue on pricing, on price marking, had become - what is the right word - intertwined with a debate on fiscal issue, which in a way, on the general fiscal strategy of GST, we did not really have a problem. Our main problem was on the actual price marking issue, because this would have involved enormous additional administrative, logistical and financial costs on local companies, which I am afraid at the end would mean that there would be increased prices, because all these costs of software changes, administration would have to be passed on.

**Deputy G.P. Southern:**

You said at the beginning you have been lobbying for a long, long time. Can you give us an idea of the timescale? How long have you been involved in this particular issue?

**Mr. J. Hopley:**

Perhaps I could take that, Mr. Chairman. Just to give you my bona fides, as a member of Ray's sub-committee, I am also the Chief Executive designated to the Channel Island Co-op, so I do express my retail interest as well as my Chamber of Commerce involvement. Ray and I are the sub-committee of the Chamber when it comes to GST and we have been for the last 2 years. We started discussion with the Crown agents on the whole issue in the autumn of 2005, and we had a whole series of subsequent meetings, including 3 direct face-to-face meetings with Senator Ozouf on the issue at different times and in different contexts. Consistently over that period of time, Senator Ozouf and Trevor Le Roux, the Director of Trading Standards, argued the case quite vehemently for inclusive pricing. We consistently pointed out to them that we could see the advantages in that to consumers in terms of clarity, to a degree, but we put a lot of counter arguments in terms of practical problems that that would give us within the Islands, because it was seen fit by our political masters to go a bit of a unique route with GST in that they did not follow the UK (United Kingdom) VAT (Value Added Tax) model. To all intents and purposes here, GST is actually VAT. There is no difference at all in terms of the way this is constructed. It is just a question of semantics. The big problem was, because the States did not see fit to follow the UK VAT model and have exclusives and zero-rated, they gave industry in the Islands a whole series of problems, which would create immense difficulties to us. Despite all the explanations and over many, many months, in different contexts that were given to a variety of civil servants and politicians,

the consultation always seemed to be one way. The points made were listened to in some senses, but we never got a reaction, and there was no discussion on how the issues could be resolved. Unfortunately, at the end of the day, we have had to make this call to challenge the whole concept of inclusive pricing as a result of that. But the consultation did start over 2 years ago. We have continually discussed these issues with a variety of representation from the Crown agents. As people gravitated into becoming directors of GST, these discussions were continued, Trading Standards were involved very early days in discussion with us. We have talked to Ministers in Treasury as well as Economic Development. We have talked to colleagues of yours; Deputy Alan Breckon with his Consumer Council hat on. We have talked to anybody who would listen to us, but it was never seen fit by EDD (Economic Development Department) to actually apply themselves and deal with the issues that we were raising with them.

**Deputy G.P. Southern:**

When you say since autumn 2005, specifically on the pricing issue, among others?

**Mr. R. Shead:**

Specifically really more on the pricing issue, because we just assumed that it would be exclusive pricing, and this came out in a discussion with Senator Le Sueur about how it would operate and we said: "Well, of course that will be exclusive" and he said: "No, no, no. We want to do it the other way." I said: "Are you sure?" and then it sort of came out that in a way the Treasury was not too worried how it was applied, so long as they got their tax, if you see what I am getting at.

**Deputy G.P. Southern:**

It seems that they have been 2 assumptions coming together and not communicating.

**Mr. R. Shead:**

Yes, it does.

**Deputy G.P. Southern:**

Because certainly last night the Minister had always assumed that it was going to be inclusive.

**Mr. R. Shead:**

Yes. Well, in a way, you see, they -- because Jersey follows the UK price and consumer legislation, they just assumed it would follow on, but the big difference is that there are a number of major exclusions in the UK, especially foodstuffs. Apart from Nathan and our discussion on jaffa cakes and whether they are snacks or foodstuffs, in general, foodstuffs are not subject to VAT, and 98 per cent of the food sold in Jersey comes from the UK, so there were all sorts of other logistical problems that would be involved in trying to apply a tax on the till, and it obviously had cost implications as well. On the shelf, I should say, sorry, not on the till.

**Deputy G.P. Southern:**

On the shelf. I thought you were actually saying on the shelf.

**Mr. R. Shead:**

Yes.

**Deputy G.P. Southern:**

Would you like to take the opportunity now, then, to talk to us about the cost implications, because we have certainly had those questions? We were talking to Steve Lowthorpe this morning, and he was saying that there is a cost either way you go, but from your perspective, the cost of inclusive labelling, on the shelf labelling, is the one you are objecting to. Could you illustrate that, please?

**Mr. J. Hopley:**

I have provided figures which are in the possession of Senator Ozouf and Trading Standards, and in the possession of Steve Lowthorpe, so the figures I am quoting you are in the public domain and we are quite happy for them to be used in whatever context that you want. We accept entirely whichever model that is followed, whether it was inclusive or priced on the till, there would have been a setup cost going in either route. Our estimation on that setup cost - and all these figures have got to be estimations because a lot of our computer work is done on an hourly rate, and until the work is actually completed, you work to a budget and you discuss things if you run over budget - our best guess is that it would cost somewhere between £50,000 and £75,000 to adapt all our computer systems to cope with GST. Now, we are not only running a food business. In our context we are running a departmental store business, and we have got a clothing business, we have got petrol stations, so it is an awful lot of software to adjust to cope with the necessity. That, we saw, was a one-off cost whichever route the situation was eventually taken. The differentials start kicking in when you start complicating the issue and, again, we are in a unique position to a degree - not unique, there are other retailers involved - but what you have got to take on board is we are a pan-Channel Island business; we have got an operation in Guernsey as well as Jersey. Right across our state, if we are selling furniture in Jersey, we are selling furniture in Guernsey, the price is identical, our computer systems are geared to one price file. It differentiates in terms of stock between the Islands, but it does not differentiate in terms of pricing. That is applied right across our retailer state with the exception of where duty or special local circumstances come in. To give you an illustration, obviously wines, spirits and tobacco is uniquely priced in the 2 Islands for duty reasons. Odd things like milk, because of the difference in terms of a disruption of distribution in the 2 Islands, the prices vary there. But when you get beyond that, there are very, very, very few other exceptions. So, furniture or electrical products or food or imported meat or bread even is a single price across the 2 Islands. So, we were faced with a double whammy because obviously what we have got to cope with is modifying our Jersey system to cope with GST with no modification at this stage required

for the Guernsey end of our business. So, we did not specifically cost that, but I need to put that on the table as a cost. The other thing that comes into play as a result of that is that we obviously incur a cost there because it necessitates us considering our marketing activity. At the moment in time, if we are producing point of sale for promotions, then we produce a point of sale which covers both Islands. If we are producing advertising to put into the newspaper or on the TV, then obviously it covers largely both Islands. We have obviously got to cope with differentials on wines and spirits. We need now, obviously, to split that out and produce 2 different sets of marketing, 2 different sets of point of sale, and that spins across other aspects as well. We have also got to maintain 2 complete price files, because historically we have been able to flip between 2 -- you had a button that says: "Do you apply this to Guernsey as well as Jersey?" You simply said: "Yes." We will not be able to do that in the future. So, we calculate that we will require 2 additional administration staff to handle the complexities I have just described. That will probably add another £50,000 - £60,000 to our costings. In addition to that, if we had been forced - and we have not been forced down this route - totally down the inclusive price route, it would have generated a whole series of problems to us in terms of our current route to market on a proportion of our range. Route to market, I mean, the logistics --

**Deputy G.P. Southern:**

I am a bit slow here. Can I just come in on -- you said £50,000 - £60,000 extra for 2 extra staff; in the case of inclusive marking or on either system?

**Mr. J. Hopley:**

No. Because we have got to incur all these extra complexities now, run 2 price files, 2 marketing situations, 2 advertising, that is additional staff as opposed to ... we would have coped with any variation in business, but because we have got to modify our complete computer systems at a technical level, but then maintain them. It is the maintenance course that we are talking about there, so it is 2 additional staff permanently. It is not a one-off --

**Deputy G.P. Southern:**

Under either system?

**Mr. J. Hopley:**

No, no. Predominantly because of ... if we are being driven down the inclusive price route. The fact we are not in the inclusive price route now enables us to cover a differential in the pricing by including on advertising, for instance, the price will remain the same in both Islands. We will simply put a rider on the bottom of our press advertisements saying: "Plus 3 per cent GST"

**Deputy G.P. Southern:**

Because you are allowed to do that.

**Mr. J. Hopley:**

Because now, at least temporarily, we are allowed to do it.

**Mr. R. Shead:**

Could I just say that this applies through a number -- a lot of companies operate on a pan-Island basis, large and small, and while talking to the smaller retailer and said: "How many SKUs (Stock Keeping Unit)?" which is the number of actual single units of sale that they have, and he said: "Yes, well, I have got 9,000" and they are a fairly small shop that operates on a very small amount of space, and they have got a shop in each Island, and he said: "I have just suddenly got to ... I would have to do 2 separate price files and all the administration involved in that as well." So, I just say that with these large and small companies, a lot of businesses in Jersey operate in Guernsey as well and have the same customers. I mean, they are different, you know, commercial customers and obviously consumers as well, and the guys in Guernsey expect to pay the same price in between the 2 Islands, if you see what I am getting at.

**Deputy G.P. Southern:**

Sure.

**Mr. J. Hopley:**

In our context, and it does certainly apply to other retailers in the Island, certainly CI Traders in whatever guise they are operating at the moment in time, there are ramifications for their Marks & Spencers franchise in Jersey, and there are ramifications ultimately in Guernsey, because there will be a differential between the Marks & Spencers in both Islands from now on. Our problem there was that our route to market for a lot of our products, as Ray has already explained, is the UK; 98 per cent of what we sell in our food stores or non-food stores comes in from the UK, or at least they come through the UK if they are not manufactured in the UK. Everything is predicated to a UK pricing strategy. We are not treated by the vast bulk of our suppliers outside of the dutiable areas as an export market. We are simply seen as an extension of the domestic UK market, and that means that a whole raft of our foodstuffs, perhaps 7.5 per cent of the total value of what we sell in our food stores, comes in from the UK and, essentially, it has price marked at source by the manufacturers. Now, it does not sound a lot, but it is the sort of product ranges which are the emotive ones - fresh meat, fresh produce, chilled foods, it is that sort of product area where price marking is most prevalent.

**Deputy G.P. Southern:**

That is price marked with VAT?

**Mr. J. Hopley:**

At source.

**Deputy J.A. Martin of St. Helier:**

Well, it is zero-rated.

**Deputy G.P. Southern:**

Right, right. That should be clear, yes.

**Mr. J. Hopley:**

No, because it is zero-rated. It is a price marked at the UK retail price. Now, we have got a decision to take. In some instances, we are paying freight on those products; in other instances we are not. Just so there is no illusion, probably 60-65 per cent of what we sell in our food stores we do not incur a freight bill on, so we do not use the excuse of freight for playing around with pricing in those areas. Fresh food, meat and poultry are particular produce we do pay freight on, but despite EDD's opinion that we are not competitive retailers in the Island, we have taken a choice that we will sell the product here at exactly the same price as the UK. We will absorb the freight. Because there are no VAT implications, as Ray has said, the products are zero-rated in the UK, we can just about manage that out of a tight margin. The difficulty we are facing is if we were forced down an inclusive price route, then we would have either had to absorb the GST on those products as well, or we would have had to modify the sourcing of them, and probably or mostly offer, and the competitiveness of the prices were we offering our consumers would be diminished. So, the result of that was that we calculated that that would have an impact on our operational costs ongoing, because we would have had to spend an interminable amount of time negotiating with the UK supply base to provide specially priced product to the Channel Islands; we would have had to have dealt with the difficulty of GST in Jersey, but no GST in Guernsey; we could have gone on selling the zero-rated products at UK prices in Guernsey, but we certainly could not do it in Jersey. There is no possibility in our context that would absorb GST. We have made the offer and I know Scrutiny has taken an offer of a different context - come and look at our books - our bottom line after our dividend to our consumers is roughly 3 per cent, so there is no possibility whatsoever of us absorbing GST. We actually made a bigger bottom line than CI Traders managed to as a percentage last year, so I would suggest to you there are very, very few retailers, particularly in the fast-moving consumer durables, the consumer goods to the Island, that are making anything like sufficient margins to even consider absorbing all or part of GST. So, our difficulty would have been additional administration costs there, perhaps £100,000, but there would have been a degradation in terms of the attractiveness of the proposition we could give to our consumers, and we would challenge EDD's regularly pronounced stance that they are the consumer champion in this. They in one sense -- because they are arguing for clarity of pricing, and we understand that is an issue. It does need dealing with and we do appreciate that consumers do need clarity, but there is a counter argument there in terms of consumer interest to say: "Well, if you had forced us down that route, the offer would have been

diminished; our costs would have gone up; that would have had to have been passed on and the consumer would have suffered in another way through either higher prices or degradation in service” and that was the issue that, in the consultation process, nobody ever wanted to accept or discuss and rationalise and try to effectively circumvent.

**Deputy G.P. Southern:**

So, when you say degradation in service, do you mean you would simply stop --

**Mr. J. Hopley:**

Well, we would have to stop doing certain things, because manufacturers would not have produced them, because our Islands are relatively small; the volumes are relatively small; and production runs and retooling pricing on machinery in major UK production plants is a very expensive proposition. They simply would not have done it in many instances.

**Deputy G.P. Southern:**

But that is when it comes in priced from the ...

**Mr. J. Hopley:**

It is only 7.5 per cent of value of our total product range, but it is there.

**Deputy G.P. Southern:**

But nonetheless ...

**Mr. J. Hopley:**

It is significant and it is in the emotive areas. When we are challenged on pricing it is always the same thing - bread and milk in the Islands, fresh foods imported from the UK - and that is the sector where the price marking is most prevalent.

**Deputy G.P. Southern:**

Can I just, for my clarity, is that not bar coded? It is then bar coded into your computer?

**Mr. J. Hopley:**

You have got a mixture. You have got a mixture of price market source and that means ... let us say we sell a chicken, so we have got a 2.5 kilogram chicken that we import with a price tag on it off£4.99. We are not unique in that; Marks & Spencer do the same; CI Traders, through their Safeway/Checkers estate, bring in product from Iceland or from Waitrose or from nicer ... exactly the same. It is price marked at source; there is a price put on the packaging that says: “This product is £4.99.” That is the one issue. The other issue is where you get what they call price impregnated bar code. Now, that



involves random weight product, predominantly meat, fresh meat, cheese, a few other bits and pieces. What occurs there is that the product is price per kilogram, because the UK is obviously metric, and the retail price is then dependent on the specific weight of each individual pack. What they do is they burn that pricing into the bar code, so you can get a pack of lamb chops weighing .75 of a kilogram, £5 a kilogram, it would be £3.33 or whatever that might be. If it was half a kilogram, it would be £2.50, but that retail price is burnt into the bar code and it is recognised via a point of sale or a till as it is scanned at the checkout. But what we would not have been able to do is amend that pricing, because it is already burnt into a bar code. The only thing we could have done is de-pack the product, repackage it, et cetera, et cetera. Now, you cannot do that because all of these products are packed with a shelf life, which is dependent on them not breaking the chill chain and being handled sensibly, et cetera, et cetera, et cetera. So, all we could have done in the end is that sort of product would not have been able to come through into the marketplace unless we took the decision to absorb the GST. Our argument is we have not got enough bottom line to even consider that at the moment.

**Mr. R. Shead:**

You cannot overprice, because we cannot have 2 prices on a particular item, because that breaks the consumer price laws, so you cannot actually stick another label on them.

**Deputy G.P. Southern:**

Go on. Can you just explore that a minute, because I was just going to say: "Well, how much effort is it to just slap another barcode on the top which is linked to your computer?"

**Mr. R. Shead:**

For example, when you have fresh products; one of the lines of products I sell are salads, florette salads, that are advertised, but you cannot -- some of them come price marked, and you cannot imagine sticking another price tag on them, another price, an actual label on them with another price. You have products with a 3 or 4-day shelf life. It would take a whole day and a horrendous cost - the logistical cost as well as financial cost of sticking another label on them - you cannot overprice stuff, because that is, as I said earlier, that is against the consumer price -- which is clear enough. We do not have an argument with that. There should be just one price per product; you cannot overprice product because that is unfair to the consumer.

**Mr. J. Hopley:**

From a consumer interest perspective, the last thing we would have entertained was overpricing a price marked pack with a different price, because that would have been totally unethical in our context, within the spirit and the nature of the current UK consumer protection laws on price marking. Although we are not obliged to follow those, it is good practice, in our opinion, to honour the spirit of that sort of thing, because it does provide our consumers (which, in our case, are our customers or members who own the

business) with a degree of protection against the shark practice, and we would have regarded that as shark practice.

**Deputy J.A. Martin:**

On speaking to Mr. Lowthorpe this morning, he does not seem ... because he said when he went out to consultation he had a pile of letters basically the same. He explained it is the big UK retailers operating here that do not seem to ... they will go for inclusive because over there they are set up for that, because they are inclusive, they are not food, mainly not food. My question would be to you, there seems to be more of a problem around food than anything else. We seem to have got ... if it is not the Co-op, let us say, you know, we have got Iceland in Checkers now, or Safeways. You are getting some really ... I was looking yesterday - I would not touch them with a bargepole - economy pork chops, big pack, frozen, but price on them £3, you know, a big £3 on them. Now, as you say, that would either have to stop or they would come in and you would have to de-pack that. Is that exactly what you are saying?

**Mr. J. Hopley:**

You are right in saying that it is predominantly food, but it is not exclusively food, because obviously we bring in other products that are price marked at source beyond food, which are zero-rated: newspapers, magazines and books are the ones that are constantly quoted. Obviously they are retailed at a lot of other stores apart from --

**Deputy J.A. Martin:**

Yes, things that are zero-rated over there that are not here.

**Mr. J. Hopley:**

You have got the same situation with children's clothes, because obviously children's clothes, a lot of which are in the likes of Mothercare or Marks & Spencer and so forth, are price marked at source, are zero-rated in the UK. So, it is not totally food; it is predominantly food, and we accept that this issue and this argument, as a result of that, tends to gravitate more around the food part of the industry rather than anything else. I could change hats and say that as the Co-op rather than general buyers, we have a subtly different view to the total Chamber approach because we would have preferred that the Island decided to go the UK model. Not necessarily the same rate but when they introduced GST that they would have gone down the route of bringing GST in with the same zero-rating exemptions as the UK, both calculations based on the family income survey that was produced 12 months ago, which we regard as a substantive and accurate piece of work. That would have forced the Treasury to consider putting the rate on GST up from 3 per cent to something like 4.2 per cent, but we felt that that was a penalty worth paying, and that would have taken away a significant proportion of these issues. Not totally, but it would have removed them. That is not Chamber of Commerce's stance; that is Channel Island Co-op's stance. It is a stance that we might decide to go on fighting still, because we feel there is a lot of validity

in that. It will diminish the cost in modifying family income supplements and so forth, because a lot of the necessities will not have GST there and, hence, the least well off in the community will not be forced to be paying slightly higher prices to get the staples of life.

**Deputy G.P. Southern:**

Is that an additional bonus, from your perspective, as the Co-op, that that would reduce your additional costs?

**Mr. J. Hopley:**

Yes.

**Mr. R. Shead:**

The other thing to bear in mind, that if we went down the exclusive route, for all sorts of products, not just food, there are price points. So, human nature being what it is, people are probably going to round up. So, the 3 per cent in some places could become 3.5 per cent. Then, for example, people could take the view that this is a tax like alcohol, tobacco, so this is something where we should make our full margin on it, so you have got the cost of the goods, the cost of getting it here, and then any taxes and duties, and then you make your margin. So, that could actually mean that the effective rate could be 4 per cent, if you had inclusive pricing. But to have exclusive pricing, the price is the price at the bottom of the till receipt, there it is, a figure that you pay that we, as retailers, collect for no cost as far as the government is concerned, and repay it to the government, if you see what I am getting at, making that distinction. With inclusive pricing, there would be, human nature being what it is, prices could come down, but in general you will probably find that prices go up to meet certain price points - 49p and 99p - this sort of thing, and this has possible implications as well.

**Connétable M.K. Jackson of St. Brelade:**

Going back to the Chamber as a whole, our indications are that the feel for shelf edge pricing or till pricing is evenly balanced. What is your feel from the Chamber?

**Mr. R. Shead:**

Well, the view of the members and the people that we have consulted, and especially the members of the retail committee, who are the people that would actually be collecting the money, is that people would much rather have exclusive pricing. So it is clear, this is the amount of tax, so the consumer knows what they are paying in tax, we know what we are paying to the government and it is clear and even handed for everybody.

**The Connétable of St. Brelade:**

Do you have many members in the Chamber who are, shall we say, big English multiples, these days?

**Mr. R. Shead:**

Not as many as we would like, no, but we do have a few who are part of English -- and they ... so as we understand anyway, they agree to exclusive pricing, because they were behind us when we launched our advertising campaign and we had brochures and leaflets and fliers in a range of stores. There were some local companies and some were actually branches of UK multiples as well.

**Deputy G.P. Southern:**

That is interesting because the contribution we got today was suggesting that there were 2 equal piles: one was largely local based traders and Chamber of Commerce based, and the other was UK based.

**Mr. J. Hopley:**

I think Ray and I are totally familiar with that, and we do not decry or challenge Mr. Lowthorpe's assumption on that. I think what you actually had there was a situation where UK multiples in particular felt that this was going to be very, very simple, and 3 per cent would simply be added on an inclusive basis. The devil is in the detail of this, that when the orders and the rules and regulations were coming out, I think a number of those multiples would have been forced to reconsider the situation, particularly if they were operating in both Jersey and Guernsey, because they would have faced the same problems as us, having to run a system for Jersey and a completely different system for Guernsey. So, I think there is a total lack of understanding on the detail of GST. Ray and I, and many contacts now, are running sort of like educational shows for a variety of people. We talked to the small business group of the Chamber earlier this week, and it is only now, because all the dialogue of the conversation has been deflected into price marking, that the real consequences and complexity of what is needed to be done in terms of the total introduction of GST is sinking in. I think you will see retailers who have come out initially and said they want inclusive pricing, move to exclusive pricing, and you will see people going in the reverse direction, because at the moment we have got the worst of both worlds.

**The Connétable of St. Brelade:**

It has certainly been indicated this morning, I think Steve Lowthorpe indicated that probably after 6 months there would be a lot of repositioning and settling down. You would agree with that, would you?

**Mr. J. Hopley:**

Yes. Can I quote you one thing, because this is an official Chamber point of view? I know one or 2 of you might have seen a copy of this before, because you were sent one, but on behalf of Chamber, I wrote to Senator Walker, the Chief Minister, back in the early part of July, 4th July in fact, before the decision to modify GST was made. We pointed out there that any proposal to phase in the introduction of full inclusive price marking with an option period of perhaps 12 months could be the worst of both worlds, and it could increase costs, and systems might be modified twice, and it would cause inevitable

confusion, because I think you are absolutely right, what is going to occur now is that a lot of us have got a favoured position; we will move to that favoured position; we will attempt to make it work as best we can. Certainly, Chamber will use all its powers to make sure that retailers do that in an appropriate manner. But experience and factors that come into play over the first 6-12 months of trading might very well force people to realign their position. This is where the dichotomy is; there is no certainty in this. We have got options; people will take the option that they believe to be the most favourable one. There is no guarantee they will stay there, and that is going to just increase consumer confusion tremendously.

**The Connétable of St. Brelade:**

What is your view of the consumer's perception? Clearly, if someone arrives at the till, albeit there will be signage in the shop, and suddenly they are having to dip their hand into their purse for the other 3 per cent, do you think they will get used to that, as they have in the United Kingdom?

**Mr. J. Hopley:**

I was unfortunately afflicted with the Economic Development Minister's presentation here yesterday without being able to challenge it. He has got a genuinely held belief - and I do not decry it - that consumer clarity is everything in this, but my view is that consumers, as one or 2 of the panel, particularly Deputy Martin, indicated yesterday, are not fools, and will in a very, very short period of time, providing the rules of engagement are explained to them in the fully appropriate way, providing the traders are doing it in a very upfront and honest manner, they will adapt to either procedure equally readily. I have got no counter view to what I have always had, that consumers will accept bottom of the till receipt just as readily as they would have accepted inclusive pricing. My argument has always been that the gain in going the bottom of the till receipt offsets the advantage of absolute clarity by having inclusive pricing. Senator Ozouf chose not to take that view and, you know, I respect his reasons for that, but we had a counter view.

**The Connétable of St. Brelade:**

Have you looked at the American retail sales tax or the Canadian fuel tax arrangements at all?

**Mr. R. Shead:**

Our President has just come back from Canada and presented me with - I have got it in my briefcase - a Canadian receipt which shows both provincial and federal sales tax as well. So, people are used to that. Most places where you go - we have just come back from holiday in Spain - you get a price for a hotel and at the bottom it says: "IVA" which is the Spanish VAT, and there it is on the bottom. Most quotations of all sorts, travel and anything like this, clearly state: "Plus tax" and, obviously, what we have to do now is to start an education campaign between now and obviously covering the introduction of GST, assuming that it happens next May, to inform consumers that this is what we are doing. This is the price; the price on the shelf edge is not the price that you pay; there is a 3 per cent government tax

and it is important to stress that; a 3 per cent government tax that will be added at the till.

**The Connétable of St. Brelade:**

Interestingly enough, we have heard a differing report from Canada over the past couple of days. I think maybe the Economic Development Minister indicated that it was an extremely unpopular tax with the Canadians, yet this morning perhaps it was alluded to the fact that it is quite an efficient tax. Christopher Davy has quite kindly given me a note on some experiences he has had with the 14 per cent harmonised sales tax, plus a 3 per cent hotel tax, which seems to be quite acceptable. What is your knowledge of the difference between a GST and a retail sales tax, an RST?

**Mr. R. Shead:**

Well, actually, GST is value added tax under --

**The Connétable of St. Brelade:**

But in practical terms to the consumer?

**Mr. R. Shead:**

To the consumer, it is an extra amount that you pay everywhere, I would say.

**Mr. J. Hopley:**

I would not decry the explanation that the Ministry gave yesterday, in the sense that there is a subtle difference between the retail sales tax and a GST/VAT, because that is what we are talking about. Obviously, retail sales tax is only finally collected at the final stage when the product moves into the hands of the consumer, or the service moves into the hands of the consumer. Obviously, with the other concept of GST is that the concept of inputs and outputs, and that tax is collected at each stage in the process, from manufacturing if it happens to be in-Island, distribution if it is in-Island, wholesale if it is in-Island, on to the retail process. So, I think the Minister was completely correct to say that in a modern strategic approach to taxation of this nature, that GST obviously has got the edge over a retail sales tax in terms of its revenue generation, but also in terms of diminishing the opportunity - not eliminating but diminishing - for people to cheat around the edges with the taxation system and so forth.

**The Connétable of St. Brelade:**

You may have heard the Minister allude to possible legal complications in that there are EU directives which he suggests may indicate that shelf edge pricing is mandatory. Have you got any view on that?

**Mr. R. Shead:**

Well, we are not part of the European Union - that is my view, and Chamber's view as well - so, therefore, we need to have a tax that is designed for local use and consumption, let us put it like that.

While I can see that a lot of the consumer legislation, consumer affairs legislation, mirrors the UK system, on this particular issue the UK system and the EU system is far more complicated because the rate of tax is so much higher, varying between 7 in some countries up to 17, up to 21 per cent, even. So, I think Jersey, even though it might be unique and exclusive in designing its own tax, there is no reason why we should not have our own tax system here for the basis of calculation of GST.

**Mr. J. Hopley:**

I would go further than that and challenge the Minister's assertion. He advises to both Treasury and to Economic Development, and I will quote ... said that necessity for inclusive retail pricing is not binding on the Island. We can actually do what we like. What would be more of a problem was if we legislated for exclusive pricing and forced everybody down the exclusive price route, i.e. that it had to be on the bottom of the till receipt. We would still be legal as far as I can see, but what would be more difficult there is that we would be flying totally in the face of the EEC (European Economic Community) protocols, and would be making ourselves somewhat more vulnerable to concern from the EEC that we were actually going totally against what they would suggest. But at the moment in time, I do not think there is any legal encumbrance on us to actually go down the route, and I think what was indicated yesterday was stretching the reality a little bit.

**Deputy G.P. Southern:**

So, are you suggesting that there is this temporary measure whereby it may be inclusive or exclusive - it is up to the particular retailer - is a situation that you would be quite happy with *ad infinitum*? That we do not have to make a change some time later after a year?

**Mr. R. Shead:**

No, not at all, no. I think that so long as we make it clear by the process of education, signage, and what we have been talking about now and what we have started planning at Chamber, so long as it is clear to the consumer what is happening, what is included in the price and what is not, so long as that is made clear - and that is quite a major task that we set ourselves but it is something that I think we definitely need to do - that is an indefinite situation, as far as we would be concerned. We would be very concerned if the fact that maybe a year or so down the line, in other words 2009, you have got to change it all again, because we think we have won the argument and, therefore, it is now up to us to make it work. If we do not make it work, then we cannot complain, but we have to make it work. If we make it work, it should not be an issue in a couple of years' time.

**Deputy G.P. Southern:**

If the rate were to - perish the thought - go up, would you still be adopting the same stance?

**Mr. R. Shead:**

It depends how much. Obviously a concern is, as I understand it quite clearly, that the rate stays as it is for 3 years because that is the law that has been passed now, but I am also given to understand that there will be no new taxes up to 2011. So, in fact, we have a 4 to 5-year period where there will not be any changes. If there are changes after that, then that is a separate issue that is something that we might need to look at again as it goes higher, if that is happening.

**The Connétable of St. Brelade:**

The smaller traders, the under £300,000 turnover ones, have you had any feedback from them about opting in or opting out?

**Mr. R. Shead:**

Well, this is a problem for some of the smaller traders, because if they ... say they are importers, for example, and everything they sell is imported, obviously coming from the UK, if they are not registered, say they are around £250,000, £280,000 turnover, they do not obviously have to register. If they do not register, they suffer the fact that they have an advantage that they do not charge GST on anything they sell which, in theory, makes them more competitive. On the other hand, of course, they would still be charged GST on anything they bought locally, on anything that they imported on, and they would not be able to offset it between their domestic input or their domestic supply, and their purchased supply, if you see the point that I am making. So, people would then have to make individual decisions as to whether it is worth it or not. The other thing is, because through the efforts at Chamber we have agreed a sort of form of concession with Customs whereby for registered GST traders they will not need to declare the imports that they have and they will not need to pay for it. It would just go on their standard return every quarter and they will not need to make a distinction. Now, if you are a small trader, you have got to make that decision. Do I want to go down to the harbour every week and basically pay the GST, or is it worth my while? People will have to seek accountancy advice and obviously talk to the tax people as well who will give some advice, but that is a decision for each individual business, whether you are near the £300,000 mark or not. Let us put it like that.

**Deputy G.P. Southern:**

Jim, you stated very clearly before: "We will not be absorbing GST; we could not absorb GST." It was put to us, certainly last night, that absorbing GST is perfectly possible and inclusive pricing would encourage that as well.

**Mr. J. Hopley:**

I did not totally follow that argument. What I would say is that I think you would find in Mr. Lowthorpe's pile of inclusive pricing letters would have been a significant number of high street multiples, most of which are not members of Chamber of Commerce, I might add, who do currently charge UK VAT on the products they sell in the Island. Chamber's stance is that you should not pass on



UK VAT if you retail in the Island. As a result of that, there are a number of UK multiples who have never joined because they do precisely that.

**Deputy J.A. Martin:**

Yes. Could that be a problem? Could that be a reason why these people would like inclusive, because if I buy from a UK multiple when I am in London and I pay £2, but when I come back and it is exclusive at the till - let us say we did go down that route - they have then got, at the end of that till, on the shelf is exactly the same price as what I would pay in the UK, with 17.5 per cent- I am talking about a lipstick now or hair dye, not that I dye my hair, of course - so then there would be -- I would think people would really think: "Well, hang on a minute. I am in Jersey, I am paying ..."

**Mr. J. Hopley:**

Yes. Those multiples will find it difficult to actually add the 3 per cent on top of the VAT.

**Deputy J.A. Martin:**

So, that is why they are absorbing it, in their 17 per cent markup already.

**Mr. J. Hopley:**

But it would obviously be an advantage to them to go on charging the UK price, and that could become their GST inclusive price, masking the fact that they are actually charging people VAT. I think it was a little disingenuous to actually quote shoes as an example, that if you bought a pair of shoes and you were being forced to pay VAT, you were being forced to pay GST, you would move on to the next retailer, because if you move outside of bog standard areas, mainly electrical and food, you know, there is no such thing as a brand. You buy furniture; furniture varies store to store to store. There is very little that is -- there is some G plan or whatever it might be - but there is very, very little branded product. So, it is nearly impossible for a consumer, if they shop in a boutique, for instance, to compare the price of -- I do not wear them very often, perhaps on a Saturday night occasionally, but if you are buying a dress, you know, **[Laughter]** you cannot compare a dress at one boutique to another boutique.

**Deputy J.A. Martin:**

No, but you can pay ... I mean, I have store cards that I shop here, or I shop in a sale, and the prices are exactly the same in London.

**Mr. J. Hopley:**

Yes. There are a lot of high street multiples in the Island, unfortunately, simply pricing at the UK price levels. They will probably go on doing that. They will absorb the GST. They will take a profit knock by doing it, but they have probably got the profit situation available to them to actually engage in that. They have got no loyalty to the Island or, you know, with the new regime, they will not necessarily be

paying tax here, et cetera.

**Deputy J.A. Martin:**

That is why inclusive would suit them better because if it is exclusive, it is UK plus 17 per cent plus 3 per cent, and it could upset quite a few people, consumers mainly.

**Mr. R. Shead:**

Then, Chamber has always taken the view, VAT as such does not apply here, so therefore anybody who shops at a store that is actually charging VAT equivalent prices makes their judgement as to whether they consider what they are buying is good value. They can make that decision. You see where we are coming from?

**Deputy J.A. Martin:**

Yes.

**Mr. R. Shead:**

Obviously, that does create a dilemma, assuming the rate of GST is 3 per cent, then the shops themselves have to make their commercial judgement as to what price they will charge their consumers, and the consumers make their judgement, with their feet or otherwise, whether they accept the price that is being shown.

**The Connétable of St. Brelade:**

How do you think the consumer should be best protected in legislation?

**Mr. J. Hopley:**

That is a very, very difficult question to answer. We are in a bit of a quandary at the moment in time because, effectively, over the first 12, 15 months the GST will be operating without any specific legislation, totally controlling us. So, it is really incumbent on individual retailers, but perhaps more incumbent on people like the trading bodies, not only Chamber, but maybe the Institute of Directors, the Hospitality Association, or anybody else involved. Ray and I have been discussing this with a number of people this afternoon. What we should do is come out with codes of practice which are very, very explicit, and we should come out with the appropriate information for consumers, explaining to them exactly what we are doing as individual retailers and that we are abiding by more generalist codes of practice that are being produced by trading bodies. I think it will be difficult to get legal endorsement for that and it might be even more difficult to get political endorsement for that if the longer term intention is to take us down one specific route. But our intention will be to be as upfront and as comprehensive as possible. I am sure we will get input and support from Trading Standards and from Steve Lowthorpe on how we should do that, but it will not necessarily have the power of law.

**The Connétable of St. Brelade:**

My perception yesterday was that Trading Standards are certainly looking for something like that, and I would have thought that in the situation we have, it is probably the only way forward.

**Mr. J. Hopley:**

Well, our understanding, and we have got the benefit of privileged information, is that there will be regulations put out, but they will be very sort of high level and non-specific. So, it will be: "You will display appropriate point of sale" but it will not specify exactly what that point of sale will contain or what it actually is, and it will then be incumbent on the trading bodies and retailers to ensure that the appropriate point of sale is actually displayed. We have even discussed the question of who polices it. It is a very difficult question to answer just at the moment in time. All I can say is that we have made a public commitment that we will be absolutely honest with the introduction of GST. We will certainly endorse major point of sale display and a store telling consumers exactly what they are doing, and we will support as far as we can the production of material for both residents and for tourists explaining exactly what is going on so we diminish confusion right across the place.

**The Connétable of St. Brelade:**

Do you feel that your views are shared by the other food retailers, which we have relatively few in the Island?

**Mr. R. Shead:**

Yes. That is clear, yes. There is no disagreement on this point at all. A number of the other retailers - Star Group and CI Newsagents, assuming they are allowed to merge, and CI Traders under the Checkers brand - would have exactly the same issues as well with regard to inclusive or exclusive pricing. They would have a serious, serious problem with inclusive pricing, and a number of ranges of products that are - how can I put it - value items, let us put it like that, that come in pre-priced. They would probably, quite possibly, have to drop these ranges because they would not be able to cope with them on an inclusive basis.

**Deputy G.P. Southern:**

Can I take us on to another argument? It is very similar, which is the price points, the £14.99, the £49.99 or whatever it is, are sticking points, which would again indicate that for those, I presume, non-food retailers where the mark-up is relatively low - let us say jewellery or furniture, I do not know what the mark-ups are - but there is plenty of scope within that for people to absorb GST. That was an argument that was put to us last night. So, price points on sales; if you stick to £14.99, that price point is worth sticking to, you are going to absorb the 3 per cent. Is that an argument that is credible?

**Mr. R. Shead:**

Not really, because people operating here have some fairly expensive infrastructure costs, staff costs, electricity, everything like this, is a lot more expensive than in the UK, and I think most retailers - and it really does not matter what product that they are selling, it may be, you know, expensive Rolex watches, furniture or whatever - to be competitive I think most retailers would find it very difficult to absorb the 3 per cent.

**Mr. J. Hopley:**

I would expand that a bit further because I think, again, you were given slightly confusing messages over price points yesterday. There certainly is reason to assume that when you get to a higher value product, price points are much more relevant than they are, to a degree, when you come into basics. To quote the example yesterday, if you purchased *The Guardian*, it is 70p. Under the GST rules, if it had been inclusive pricing, we would have had to have taken the position where they would charge me 72p or 73p. We would have charged you 72p because we would have rounded up and we would have rounded down. To give you another example, if you are buying - I will go back to a dress - in a quality boutique and you are paying £49.99 for that dress, because that is the price point that the retailer has chosen to price it at, they have got a decision when GST comes in. If they do absorb it, then fine, they will stay at £49.99. The truth is, in that context, if they have got to pass on the GST or they chose to pass on the GST, it is very, very unlikely they would actually move the product by the 3 per cent, £1.50 or whatever that happens to be. My mathematics is probably ... but let us say it is £1.50, so they would not actually go to £51.49. They would move it to what they perceive to be the next appropriate price point. Our view always on this is that if you went the price inclusive route, it would lead, as has been demonstrated time and time again when this sort of measure -- not only GST or VAT in the UK, but I can remember decimalisation, I can remember the introduction of the euro across Europe, and in each case that gave opportunity to less ethical retailers to use rounding to move the pricing points by more than was necessary. I am not quoting something that is not more than adequately demonstrated in all sorts of communication. In fact, there was a cracking letter in the JEP by somebody independent of this who had a previous experience the other night who said precisely that, and that is the great fear. That was one of Chamber's major reasons, this rounding argument, particularly when you came to higher price points, that that would create the situation where you would get additional drift beyond the 3 per cent. Less likely where you are operating in a mass merchandise area where you would probably apply a degree of rounding, but it would have been to the penny rather than to the pound, or the next price point.

**Deputy G.P. Southern:**

In terms, again, specifically on rounding up or rounding down, we had the argument last night that the Island is so competitive that nobody would be rounding up from .1p upwards, and that people would round down or would not pass it on at all, in order to stay competitive. Is that your view of the market?

**Mr. R. Shead:**

Well, human nature, as I said earlier, would be the natural inclination to round up. Obviously, people would take a view of their competitive pricing, depending on their products and their particular market that they are in, but in general, I would have thought that people would want to ... human nature being what it is, and I have referred to this a couple of times now, the general inclination would be to round up, which in turn would be inflationary.

**Mr. J. Hopley:**

In reality, I think most retailers, even the ones who might have introduced GST in an honest and equitable manner, would eventually take a decision, if something came out at £1 and .4 of a penny, they might have put it initially into £1.01. Somewhere down the road with the next price change or the next cost adjustment or whatever it might be, they might reconsider that price point. Do we go back to 99p on that product and then do we claw back what we have just lost somewhere else by adjusting another product? But that is what happens in the industry all the time anyhow. Price changes, cost changes, come through the system, you do not necessarily move the cost through precisely in line with what that generates; you take a view based on sensible pricing, what your competition is up to and other factors. So, there would have been movement over time.

**Deputy G.P. Southern:**

Yes, sure. You get promotions, if you like, from manufacturers to say: "And this week you will be selling 2 for 1" or whatever it is.

**Mr. J. Hopley:**

They are all 39p or 41p or whatever it was, but this is a good price point.

**Deputy G.P. Southern:**

There is a balance point where you promote something at the certain price to get people in there, knowing full well you are making it up elsewhere within the shop, whatever, yes. So there is a balance there certainly. In that case, again, I put it to the Minister last night and he did seem reluctant to go down there or to explore it. Is there a case for, given human nature, for actually legislating on rounding, so that you actually say if it is up to .4 - and we can all do the same calculation so we will know if it is .4 or .49 - you round down, and if it is .5 and above, you round up?

**Mr. R. Shead:**

Any legislation like that, how do you know? It would be impossible to enforce. I do not see how you could enforce ... actually, I do not see how you can legislate - I come back to what I said - you cannot legislate for human nature. I do not see how you legislate for rounding up and down because how does

the regulator, the enforcement agency of such a law, how do they know what you start off with your cost price anyway, with your pricing? Unless they start then going in to say, you know, you have price controls, which is ...

**Deputy G.P. Southern:**

Well, presumably, you are claiming back the VAT you paid on what you got it for.

**Mr. R. Shead:**

Yes.

**Deputy G.P. Southern:**

So, again, we are back with ... I do not know.

**Mr. R. Shead:**

Something like that I just think would be a nightmare; a nightmare for businesses, a nightmare for any administrator to try and even get their head round this sort of thing. No, I think that is something we have really got to steer well clear of, because that has all sorts ... that is, in a way, probably uncompetitive, actually. I am not sure that you could do that sort of thing. I do not see how you can actually control rounding up and rounding down. I really do not. I do not know whether there is -- there probably is an EU law somewhere that says what you can or cannot do like this, but I do not know how it would operate in reality.

**Deputy G.P. Southern:**

I think some people may have tried it somewhere in the world but certainly for a small community like ours it just seems like --

**Mr. J. Hopley:**

I do not think it has gone through legislation. There is certainly scope for exhortation in a sense that people should be advised to deal with it in an equitable manner and there are some checks, though I do not think it was totally erroneous to quote the Consumer Council's database of pricing which will give them the ability to check price movement whichever way we go on this in the fullness of time. The problem is that that is not comprehensive and it has tended to be restricted to fairly narrow product ranges, particularly in the food retail industry rather than beyond; not exclusively, but that is where it is predominantly located. It is very, very difficult to track things when you get to non-branded product because if it is a 3-piece suite, when another model comes through -- or even like the televisions now, they change them 4 times a year so you are selling one model this week and then 3 weeks later another one comes in, 3 months later a similar one comes in with a new knob on it or something and it is a different model with a different price. It is, firstly, impossible to track it and certainly totally impossible

to police it.

**Mr. R. Shead:**

Consumers are very price savvy today. You go into a shop, you know whether somebody is overcharging. As the French would say, you know where there is a correct price; there is a price that you pay for certain things. You know roughly what things should be and people would soon cotton on and through word of mouth they say: "Hang on, you have got to watch this place here. There is a bit of pricing going up" and this sort of thing. So there is always that and I think we must never underestimate the consumer. The consumer knows what things should be. They know what things were last week. People follow these things; people are very price aware these days because you have all sorts of areas to check. You go on the internet. What does it cost? Okay, it is going to cost a bit more in Jersey because someone has got to get it here but then you can at least sit on it rather than maybe buying it over the internet. Can you see the point that I am making? People are very aware. There are all sorts of avenues, especially the internet, that people can use for checking prices for all sorts of products.

**Deputy G.P. Southern:**

I think we are probably coming to the end.

**The Connétable of St. Brelade:**

Just a quick one. Have you had any reaction from the restaurant members as to how the GST will be indicated on the till receipts?

**Mr. R. Shead:**

No, we were due to have a representative from the Jersey Hospitality Association with us this afternoon at a meeting, but unfortunately due to personal reasons he could not turn up. I do not know. We think that will be, again, simple for them to add on the bottom of the till the same way that VAT is applied in the UK and in France.

**The Connétable of St. Brelade:**

How do you envisage the 10 per cent will come in?

**Mr. R. Shead:**

Yes, that is an issue, whether there is a 10 per cent service charge. I think when people put 10 per cent service charges on, I always think with gratuities, if the service is there then you pay it. That is my personal view rather than the Chamber's view on that. I do see there is a possible problem with service charges. Does the 3 per cent go on the bottom as well? It probably does but I would not like to go into too much detail on that because we have not discussed it with the JHA (Jersey Hospitality Association).

**Mr. J. Hopley:**

If I could interject yet again, I am sorry but we have had 2 meetings this afternoon. Ray, unfortunately, had to break off and I enquired from the director of Trading Standards some information which I intend to pass on to the Jersey Hospitality Association in terms of this issue of the licensing loan, the confusion that might be caused by the fact that display is going to be shown of price per pint of beer or whatever in pubs or in restaurants the price of food, whether you are going to be charged a service charge on your food and your beverages et cetera. The law needs somebody who is professional to look at it so I cannot give you a ruling on it, but the indication is that it would be practical in those locations for the normal price display to be put up and a note on the bottom by indication saying that 3 per cent GST would be added to those prices. It will cover the situation but that is not the definitive statement; it is an interpretation based on reading 3 or 4 paragraphs on some documentation that Mr. Le Roux has given me this afternoon which I will be passing on shortly to the Hospitality Association. I am sure it would be in order for you to acquire a copy of that as well, as a Scrutiny Panel.

**Deputy G.P. Southern:**

Okay, I think we are done then unless there is something that you want to add or emphasise?

**Mr. J. Hopley:**

There are a couple of things that I would like to add. Unlike Ministers, I am quite happy to take questions if the public do wish to ask anything. Ray will speak for himself. There were a couple of things. We have heard a lot over the last few months in terms of support for inclusive pricing on the basis that that is what Europe does in totality and it is what the Isle of Man did as it was introduced; it is what every other jurisdiction in the world apparently has done with the exception of Canada and the United States where it is a retail sales tax rather than GST. Yes, I cannot go out and find jurisdictions; I have not really taken the trouble because I have always had the view that simply because Europe and EEC has decided to go down this route with VAT, do we really need to go the same route *per se* as a result of that? Legally we appear not to have to do it and there appears to be good reasons for us not following that precedent and I think we have explained a lot of them this afternoon. I would like to deal with the specific of the Isle of Man because we are constantly told the Isle of Man have got inclusive pricing. The Isle of Man went to inclusive pricing, as far as I can gather, for one very simple reason: they simply brought in the UK VAT model. They have got the same zero-rated, the same exemptions. Because their route to market is exactly the same as ours and predominantly from the UK, it means that all the problems are illustrated earlier on but a comprehensive 3 per cent GST and no zero-rating does not apply in the Isle of Man. So in a different world and a different set of circumstances, some would have been sitting here today arguing the place for inclusive with you because we took the UK VAT model. But we did not and as a result of that we are in a slightly different situation from the Isle of Man. Certainly, when you compare us to all the other jurisdictions that are constantly thrown at us, all of Europe, Singapore or Australia or wherever else, with respect to the Minister, I think what he has



never been able to grasp is that the route to market for the products sold in those countries tend to be indigenous. The Australians are importing product but the vast bulk of what they sell is manufactured and produced in the island of Australia, or in the continent of Australia, hence all these importation programmes that again we have illustrated do not come into play in that sort of jurisdiction. So it is a little bit disingenuous to say that the main reason for doing it is because everybody else does it. We do not have exactly the same situation and in consultation that has been pointed out time and time again but was never accepted as a counter-argument for going the inclusive tax route. I add that for clarity. The other thing that was introduced in the conversation yesterday, and that was probably the first time that I had officially heard it and no doubt the gist of it in previous discussions in the past, was the question of whether or not there was a possibility of having exemptions to the fresh market element. So what you could have had there was a situation that by order you could have created exemptions from the price marking order and you can see things like newspapers, books and magazines being a classic area where maybe the retailer would have been able to have dealt with that somewhat differently; maybe charged an exclusive retail price on the point of purchase on those and dealt with the GST as a separate entity on the till. Now, it is an attractive proposition but it could be a bit confusing because you would have certain stores selling the vast bulk of their products VAT or GST inclusive but then you could have had some narrow areas in the store, maybe newspapers, magazines, books or maybe elements of my fresh food where I have problems, where they could have been exempted and we would have been able to put up price tickets saying this product is 70 pence, the *Guardian* newspaper, and then dealt with the GST element as a sub-addition on the till receipt. So I just clarify, if I could, for your benefit what this question of exemptions that was mentioned yesterday might have been about. That is the first time it has been formally introduced as a concept but it was not ever put on the table as a definite solution or alternative.

**Deputy G.P. Southern:**

It certainly seems to be in the Regulations. As you were talking about, it is Article 23 that says that “The requirement shall be that the price or charge indicated is inclusive of tax.” That is the bit we are arguing about. It goes on: “Subject to paragraph 4.” Paragraph 4 says: “Regulations may make exceptions.” Now, I am glad you have brought that up because it is a question left over from yesterday. Would that satisfy you on your 7.5 per cent of goods that you would have had to otherwise re-price and so on?

**Mr. J Hopley:**

Ray sort of indicated just now in passing that by fairly tough negotiation, again conducted by him and me because we are the focus group, we had lots of discussions with income tax and more relevantly with customs over the importation of goods. In the early days we felt we had pointed them in an appropriate direction in the consultation process. When the initial draft legislation came out it terrified us because of what was initially proposed which was nothing like what was agreed. I know at that point in the time

the Scrutiny Panel were intended it take it up. Ray and I immediately went back to the customs and said: "No, this was going to be simple." We could have had even a bigger battle over this if they had gone, as initially intended, but there we were able to engage in some sensible negotiation. They gave us the opportunity of discussing the issues with them, of making the submission before the first draft was generally released.

**Deputy G.P. Southern:**

Is this of GST?

**Mr. J. Hopley:**

This is on GST. This is on the importation of goods and the collection of GST at the docks essentially, at the airport. By the fact that they consulted us and gave us the opportunity to find resolution to it, their second draft when it came out, which I think will be the draft they will run with now, dealt with most of the issues. Hence, what could have been a huge political argument, very much like the price marking thing, was diminished into a situation where Chamber now and certainly with my Co-op hat on, Channel Island Co-Op, are quite happy with the proposed legislation. If we had been given the same opportunity on the price marking bit by discussing things like exceptions or exemptions or whatever you want to call them, then we might have been able to find resolution to at least the majority of these issues and the call at the end of the day might have been somewhat different. I would not say it would have been different because there are other factors in play, but at least it would have been an opportunity to deal with some of the issues before it reached the conflict stage it is now in to a degree.

**Deputy G.P. Southern:**

So it has not been made clear to you that that exemption could be used for your problem area?

**Mr. J. Hopley:**

That is the first time in detail; it has never been explained exactly what is meant by that. This is this idea of exempting newspapers, books or magazines --

**Deputy G.P. Southern:**

Or those bits of food that you are saying is a problem?

**Mr. R. Shead:**

This has not come out yet, no. No, not at all.

**Deputy G.P. Southern:**

With that, I think we definitely come to an end for the moment. I thank you very much for your time.

**Mr. J. Hopley:**

No questions? The gentleman sitting here? I was stopped from questioning anybody last night, so I am particularly interested in dealing with questions anybody wants to raise.

**Deputy G.P. Southern:**

Please feel free if you wish to ask directly.

**Member of Public:**

I think you may have covered this. However, just as an example, our newspapers get delivered by a small chap up the hill who presumably is not going to be registered for GST, so I assume that my *Jersey Evening Post* will cost 40 pence. Am I right?

**Mr. J. Hopley:**

No, you have got to apply the principle of where the tax sticks(?). The delivery man who delivers your newspaper, unless he has got a turnover in excess of £300,000, will not be obliged to register for GST purposes. But when he buys the product off the *Jersey Evening Post* or the supplier, because they are registered for GST, even though he is not registered they would be forced, as they would if they supplied the product to me, to charge him GST. So when he buys daily newspapers, magazines or newspapers from the supplier, he will be charged GST. That is described as input tax. If he is registered for GST when he passes the 3 per cent onto the final consumer, yourself, he would charge you the 3 per cent. He would also add his input tax, what he has paid the distributor, against his output tax and only be obliged to put through to Revenue the differential. Because he is not registered, and if he does not pass on the additional cost he has incurred on input tax to you, then his margin will be squeezed. He does not have to; he cannot say to you that he is charging you GST because he is not registered for GST, but there is nothing to stop him effectively adjusting his price and charging you slightly more for the product to recover his input cost. That will apply right across the Island.

**Member of Public:**

Just to follow on that, in Checkers in St. Aubin, where you pick up your newspaper and it is not brought to the door, there is a box in which you are invited to put your money yourself. On your newspaper it says 40 pence. Is somebody going to put 42 pence on all those newspapers or do I still just put my --

**Mr. R. Shead:**

This is the signage issue, the education issue that I mentioned earlier. This is where in store, retailers will have to make it clear to the consumer exactly what you are going to have to pay. So, in effect, there will be a 3 per cent charge on your 40 pence.

**Mr. J. Hopley:**

I think it is subtly different. I am not trying to contradict Ray but I have probably had time to think about it while he has been answering you. I think if Checkers, as a store, register for GST and go down the route of exclusive pricing and put the 3 per cent on the till receipt, if you bought that newspaper and took it through the till the chances are you would be charged the 40 pence plus 3 per cent. If they decide, however, to put special point of sale, because there are no rules in this because that is what the politicians have levied on us, they would have the option of still selling that product to you at 40 pence. Put your 40 pence in the box because you are not going through the till. They would lose margin as a result of doing that because obviously then they would have paid input tax to buy the newspaper in the first place, but that is a commercial decision.

**Mr. R. Shead:**

Because then it is simplicity of the transaction to get you in and out quicker.

**Mr. J. Hopley:**

The confusion to the customer is you are saying put your 40 pence -- that is not standard practice but I know it happens in certain stores.

**Deputy G.P. Southern:**

As to whether Checkers charges 41.2 pence or 41 pence or 42 pence or 40 pence in the box is another question altogether. The newspaper is a wonderful illustration of what GST means.

**Mr. R. Shead:**

Oh, yes, very much so. If you are buying the newspaper with a lot of other shopping then it will come down as a figure to be at the bottom of the till receipt, sort of thing, but if you are buying it individually, yes, it is an interesting discussion to have with the JEP.

**The Connétable of St. Brelade:**

The other interesting point, of course, is postage stamps where you have funny little figures --

**Mr. J. Hopley:**

I think postage stamps are zero-rated or exempt. I do not think they are involved. I would stand to be corrected on that but I do not think postage stamps are involved.

**Deputy G.P. Southern:**

I will get an officer to look.

**Mr. R. Hopley:**

I am not sure whether they are zero-rated or exempt.

**Deputy G.P. Southern:**

It may not have been decided yet; I do not know.

**Mr. J. Hopley:**

Steve Lowthorpe would certainly answer that for you.

**Deputy G.P. Southern:**

Okay. Well, thank you very much.

**Mr. R. Shead:**

Can I leave this with you? This was our official response. You might already have had it.

**Deputy G.P. Southern:**

I think we have already got one. Jim, you said you had submitted your costings to Treasury, et cetera. Shall we chase that? I do not know if we have got them.

**Mr. J. Hopley:**

You have got a blind copy of the email I sent to Frank Walker; you personally got one. I am not saying the Scrutiny Panel did. I am quite happy to forward that communication on to Nathan if you want me to.

**Deputy G.P. Southern:**

And that contains your estimate costings?

**Mr. J. Hopley:**

It contains the estimate costs and a lot of the other arguments that we have just gone through.

**Deputy G.P. Southern:**

I think I have already forwarded it then.